

Syllabus

Finance (full-time and part-time)

- **Instructor:** Peter Szilagyi (see last page for bio sketch)
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Office: N13/405
Office hours: by appointment
- **Credits:** 2 (4 ECTS)
- **Term:** Fall 2017-2018
- **Course level:** MA/MSc/MBA
- **Prerequisites:** None

Course description

The aim of the course is to provide a broad understanding of the principles and techniques of finance, and to apply these to decisions faced by financial managers. The learning objectives will be achieved through the discussion of both theory and real-world applications.

The course is divided into six sections, beginning with the fundamentals of asset valuation and the pricing of financial assets such as bonds and shares. In Section 2, we will introduce techniques to value investments. Section 3 will turn to corporate financing, exploring capital structure (debt vs equity) choice and the cost of capital. Section 4 will discuss the relationship between risk and return, and develop models that underlie the calculation of discount rates used in asset valuation. Section 5 will examine how companies formulate their payout policy to reward shareholders. Finally, Section 6 will provide an introduction to financial derivatives including options.

Understanding the problems covered in the course will be important to all students seeking a career in business. For the importance of finance education please see "Financial Illiteracy Rampant in the Corporate World", Financial Times 15 Aug 2014.

<http://www.ft.com/cms/s/2/eac4fa8a-c0c5-11e3-bd6b-00144feabdc0.html#axzz3JPLI35Rg>

Learning outcomes

Core Learning Area	Learning Outcome
Interpersonal Communication Skills	Participate in class discussions and problem solving exercises. Present arguments and findings. Objectively critique findings of fellow students.
Technology Skills	Use of MS Excel tools in problem solving.
Cultural Sensitivity and Diversity	Harness international and professional diversity of students in viewing issues and problems from different perspectives.
Quantitative Reasoning	Apply financial models and formulae.
Critical Thinking	Exercise the powers of inquiry, logical thinking and critical analysis. Interpret and evaluate theoretical arguments and empirical evidence.
Ethics and Social Responsibility	Evaluate and discuss challenges related to corporate governance, social responsibility and ethical and professional behavior.
Management Knowledge and Skills	Attain a broad understanding of the principles and techniques of finance and financial decision making.

Reading list

All course materials will be distributed electronically on the Moodle e-learning website.

The below are largely equivalent classic finance textbooks explaining basic concepts and established theories. Students should read the *Financial Times*, the *Economist*, the *Wall Street Journal* and other business publications for real-world examples that relate to class topics.

- Ross, Westerfield and Jordan, *Fundamentals of Corporate Finance*, 11th ed., McGraw-Hill, 2016.
- Ross, Westerfield, Jaffe and Jordan, *Corporate Finance: Core Principles and Applications*, 4th ed., McGraw-Hill, 2014.
- Berk and DeMarzo, *Corporate Finance*, 4th ed., Pearson, 2016.
- Brealey, Myers and Allen, *Principles of Corporate Finance*, 12th ed., McGraw-Hill, 2017.

The CEU Library boasts a range of databases covering financial and company data, market and industry reports, global news and more. For a full list of databases visit the CEU Library at <http://library.ceu.edu>.

Thomson Reuters Eikon for Students + Datastream/Thomson ONE

- Eikon: Platform used by finance practitioners including market traders to monitor and analyze financial information. Information, analytics and news on all major financial markets including real-time pricing data, financial research, global financial news and commentary, financial estimates, fundamentals analysis, visual analysis through charting. Import/export from Excel.
- Datastream: Range of time series economic, securities and company financial data. Excel add-in.
- Thomson ONE: Global overviews on 55,000 public companies, one million private companies. Reuters News, ownership, deals, private equity, key ratios, company filings, officers and directors. Investext analyst reports, active and historical research from 1,600 independent research firms, brokerages, investment banks.

Standard & Poor's Capital IQ

- Web and Excel-based platform combining deep global company information, credit ratings and research, and market research with powerful tools for risk assessments. Real-time and historical information on markets, industries, companies, transactions and people. Tearsheet data.

Lexis Nexis Academic

- Global database of news, business, legal and other sources. Full text of over 350 newspapers, 300 magazines and journals, 600 newsletters. Wire services including Associated Press, Business Wire and PR Newswire. Company financial information, market research, industry reports.

Assessment

Grading will be based on the total score out of 100, in line with CEU's standard grading guidelines.

- Group project (20%)
- Class participation and problem solving (20%)
- Final exam (60%).

Group project

Students will be asked to form groups of 4-5, and analyze a non-financial company of their choice along the broad topics discussed in class. Details will be formally announced and discussed in the first lecture.

Class participation and problem solving

Class participation includes attendance, attitude, and volunteered and cold call responses.

Class practice questions and homework assignments will be posted on Moodle. Students must submit their solutions to the homework assignments on Moodle BEFORE the following class. The solutions will not be marked as such, but late submissions will count towards the class participation mark. The correct solutions will be discussed in class and posted on Moodle.

Final exam

The final exam will be a 90-minute closed-book comprehensive exam covering the entire syllabus. The exam will be held in the final class.

Course schedule and materials for each session

1. Basic Principles of Finance (1 session)

We cover the basic principles of finance. We address the concept of present value and its application in the valuation of financial investments and assets. *Reading: RWJ Chapters 1-8.*

2. Investment Appraisal, Capital Budgeting, and Risk (2 sessions)

We examine the relation between investment appraisal, the cost of capital, and risk. We highlight capital budgeting problems. *Reading: RWJ Chapters 9-11.*

3. Capital Market Theory and Return vs. Risk (2 sessions)

We introduce the theoretical relation between risk and return. We examine portfolio theory and the concept of risk diversification. The Capital Asset Pricing Model is derived, the empirical validity of the model is addressed. We introduce the key elements of corporate finance. *Reading: RWJ Chapters 12-13.*

4. Theoretical Foundations of Capital Structure (2 sessions)

We explore the foundations of optimal capital structure with respect to the cost of capital. We study the Modigliani and Miller propositions and the signaling and agency effects of debt. *Reading: RWJ Chapters 14-16.*

5. The Dividend Puzzle (1 session)

We consider the debates surrounding dividend policy. We discuss Modigliani and Miller's arguments, the tax clientele effect, and signalling problems. *Reading: RWJ Chapter 17.*

6. Option Pricing (2 sessions)

We introduce financial derivatives including options. We price options using delta hedging and binomial and Black-Scholes models. Real options are also discussed. *Reading: BM Chapters 20-22.*

7. Group Presentations and Review (1 session)

8. Final Exam (1 session)

Brief bio of the instructor

Peter Szilagyi is Associate Professor and Head of MSc in Finance at the Department of Economics and Business. He maintains a fellowship at Cambridge Judge Business School, where he served in 2007-2014 and was Director of the MPhil in Finance. He earned his PhD from Tilburg University and held a research fellowship at Saïd Business School, University of Oxford. He has been an external fixed-income consultant to the World Bank and the Asian Development Bank.

Peter's research interests include corporate finance, corporate governance, international finance, and law and economics. He is Editor of Elsevier's Journal of Multinational Financial Management, and Subject Editor of Emerging Markets Review and the Journal of International Financial Markets, Institutions & Money. He holds one of the first research grants awarded by the SWIFT Institute.